



Pizza Franchise Industry Report

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Contents

Pizza Franchise Industry Report 2010.....	3
Introduction.....	3
History of the Pizza Industry in the US.....	3
Pizza Market.....	4
Size and Value.....	4
Graph 1: Breakdown of Pizza Stores5.....	4
Graph 2: Breakdown of U.S. Pizza Sales6.....	5
Market.....	5
Demographics.....	6
Business Models.....	7
1. Dine In	7
Full service	7
Limited service /Fast food	7
Non-Traditional Location.....	7
2. Take-out	7
3. Delivery	7
4. ‘N’ BakeTake	7
5. Mobile	8
Table 1: Depicts the 25 franchises represented in this report and the type of business model they are based on:.....	8
The Market Leaders.....	10
1. Pizza Hut.....	10
2. Domino’s.....	10
3. Papa John’s.....	11
4. Little Caesars.....	11
New Technology & Business Development.....	12
Promotions and Marketing.....	12
Ordering.....	13
Energy.....	13
Training.....	13
Menu Adaption.....	14

Franchise Information..... 15

 Franchise fees:..... 15

 Table 2: Franchise Information Collected from the FDD’s of 25 Pizza Franchises.....15

 Table 3: Ongoing Fees Related to 25 Pizza Franchises:.....16

 Location..... 16

 Site selection.....17

 Territory.....17

2.Length of the Franchise Agreement 17

3.Staffing and Training 17

4.Regulations..... 18

Outlook..... 19

Sources..... 20

Pizza Franchise Industry Report 2010

This report presents an overview of the U.S. Pizza franchise industry and outlines the investment, costs, and fees associated with pizza franchising. The report is based on data drawn from the Franchise Disclosure Documents (FDD) of a representative sample of 25 pizza franchises and on published industry sources.

Introduction

Pizza is very much part of the American way of life, with Americans eating approximately 100 acres of pizza each day, or 350 slices per second¹. Although the pizza industry experienced a decrease in sales during the recession, the beginning of 2010 has seen an increase in sales. The development and implementation of new technology and marketing strategies has enabled the pizza industry to adapt to growing consumer demands for cheap, fast, and convenient products.

History of the Pizza Industry in the US

Pizza arrived to the inner cities of the United States, New York and Chicago most notably, in the early 1900s, thanks to the large population of Italian immigrants. The popularity of pizza then grew with the returning of GI's to the US after being stationed in Italy during World War II. They brought home a demand for the pizza they had enjoyed in Italy and thus began the mainstreaming of pizza into American society. Between 1945 and 1960, pizzerias began opening all over the country.

At that time, pizza restaurants were individually-owned stores, but the proliferation of chains changed this. Pizza Hut started in Wichita, Kansas, in 1958 and now has over 7,500 units in the US; Little Caesars emerged in 1959 in Michigan and now has over 2,500 units. Domino's started in 1960, also in Michigan, and now has over 5,000 units in the US; Papa John's opened in 1989 in Indiana. It now has nearly 3,000 units in the US.

Today there are nearly 68,000 pizza stores in the US².

Pizza Market

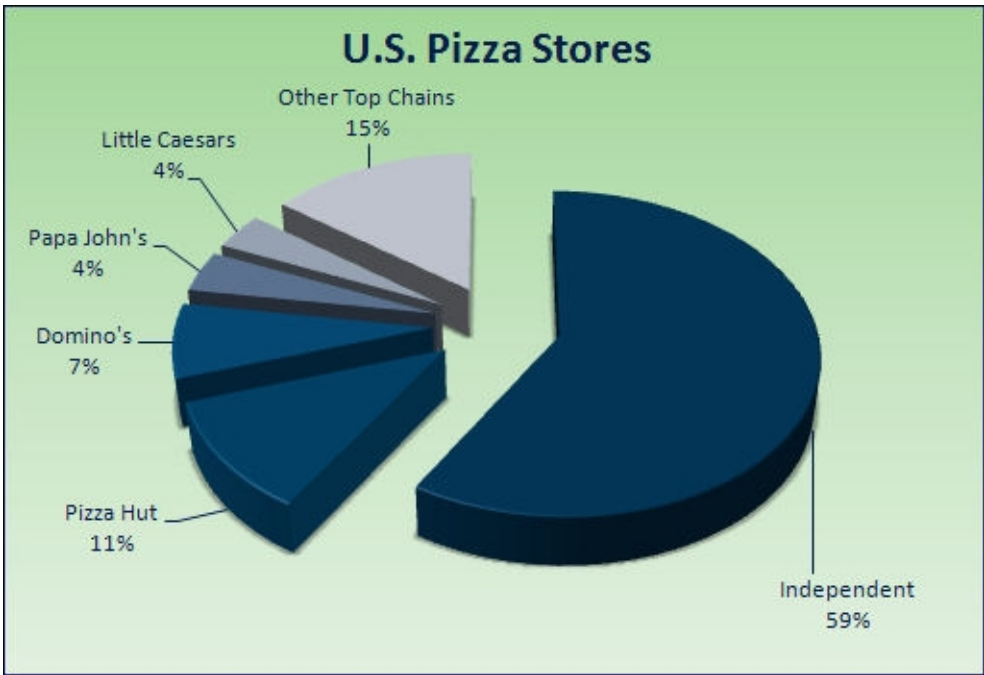
Size and Value

The pizza segment of the food industry represents 11.7% of all restaurants and accounts for more than 10% of all foodservice sales. Between June 2008 and June 2009 the US pizza industry recorded nearly \$37 billion in sales³.

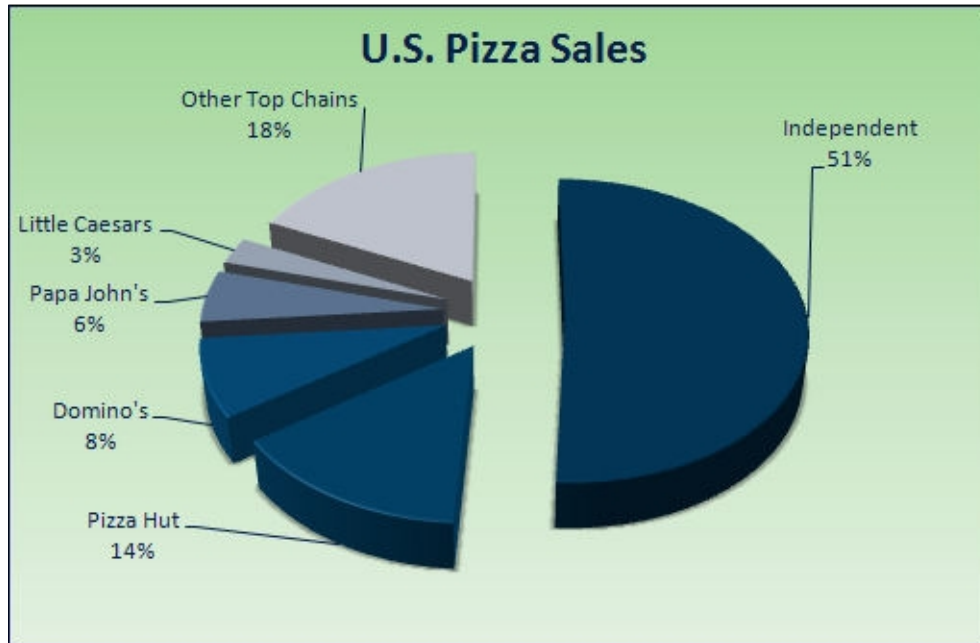
According to "Pizza Power", PMQ magazine's (Pizza Marketing Quarterly) Annual Industry Analysis, of the 67,554 pizza stores in the US, 59% are independently-owned and control 51% of total pizza sales. Franchises and chains account for 41% of the market and for nearly half the sales⁴.

The following pie charts were sourced from PMQ's 2009 annual industry analysis and depict the breakdown of pizza stores in the US and a breakdown of US pizza sales.

Graph 1: Breakdown of Pizza Stores⁵



Graph 2: Breakdown of U.S. Pizza Sales⁶



Market

The pizza industry experienced a loss of market share and sales during the recession as skyrocketing cheese prices and an increase in the cost of wheat and other pizza essentials drove up the cost of pizza. McDonald's and other hamburger purveyors gained market share by attracting penny-pinching consumers with value meals, some with entrees priced as low as \$1 or less.

In an effort to revive sales, pizza businesses began to offer promotions to customers through varied marketing channels such as social media sites, the internet and direct mail. For example, Pizza Hut launched a \$10 promotion at the end of 2009 in Dallas which went nationwide earlier this year and helped the country's largest pizza seller regain some of the sales it had lost to lower-priced chains. The promotion offered consumers any pizza, any crust and any toppings for \$10. This trend towards offering targeted discounts has proved a successful strategy as most pizza businesses have reported an increase in sales for the start of 2010.

Due to the recession-driven “eating in” trend, pizza businesses have experienced an increase in take-out and delivery sales. Take-out and delivery has risen in popularity due to the fact that it is cheaper than eating out, as there are no additional expenses like tips, drinks and gas. The increase of at-home leisure activities has also been a key growth driver. With new technology that allows for easier and faster ordering, the number of consumers ordering online or via text is forecasted to rise.

Demographics

Pizza is enjoyed by people from all walks of life and eating out at restaurants is an essential part of the American lifestyle. According to the National Restaurant Association, 45% of adults say that restaurants are still a major part of their lifestyle and that they will continue to frequent their favourite restaurants⁷. According to a survey completed by Mintel⁸, 93% of Americans eat at least one pizza per month and 21% of 18 – 24 year olds purchase pizza more than three times per month. This is compared to only 7% of those aged over 65 eating at least one pizza per month. Pizza also proved popular with parents. About 20% of the parents surveyed said that they purchase pizza more than three times per month, compared to 12% of adults with no children.

Business Models

The pizza franchise industry is quite a diverse and well developed industry. Within the pizza industry there are many business models available to potential franchisees. The following is a breakdown of the 25 franchises represented in this report and the different business models they offer.

1. Dine In

A dine in establishment refers to an establishment where seating is available for the customers.

Full service

A full service pizzeria is a sit down restaurant where the food is served to the table. Many full service pizzerias will offer take-out and delivery services.

Limited service /Fast food

A limited service or fast food pizzeria may not offer table service. Instead the customer will order, pay and collect their food at the counter. There may be casual diner-style seating available.

Non-Traditional Location

These pizzerias offer products and services at non-traditional locations including office buildings, shopping malls, stadiums, toll roads, airports, zoos, convenience stores and similar retail facilities. Non-traditional locations will ordinarily only offer take-out and delivery services but may have sit-down facilities depending on the location.

2. Take-out

Take-out pizzerias offer customized pizzas made and baked for walk-in or call-in customers to pick up. For more information please see our report on [Take-out and Delivery](#).

3. Delivery

A delivery service allows the customer to order custom pizzas, which are baked and delivered by restaurant personnel. The customer can call, text or order online. For more information please see our report on [Take-out and Delivery](#).

4. 'N' BakeTake

Take 'n' bake pizzas are customized pizzas made for walk-in customers. The customer then takes the pizza home to bake themselves at their own convenience.

5. Mobile

A mobile pizza vehicle offers a take-out service only.

Table 1: Depicts the 25 franchises represented in this report and the type of business model they are based on:

	Name of Franchise	Services Provided
1.	Ameci Pizza & Pasta, Inc.	Fast food style service/ limited service Take –out
2.	Arizona Pizza Co. Inc.	Full service
3.	Blackjack Pizza	Delivery and take-out
4.	Boston Pizza	Limited service /fast food style service plus sports bar
5.	Bucks Pizza	Delivery and take-out also a small number of franchises now offer limited service /fast food style service
6.	Captain Tony's Pizza	Delivery and take-out and full service
7.	Domino's	Delivery and take-out
8.	Extreme Pizza	Delivery and take-out and limited service /fast food style service
9.	Figaro's Pizza	Take 'n' bake and take-out
10.	Godfather Pizza	Fast food style service/ limited service/ non-traditional locations Take-out and delivery
11.	Hungry Howie's Pizza	Delivery and take-out
12.	Little Caesars	Take-out

- | | | |
|-----|-------------------------------------|--|
| 13. | NYPD | Full service and delivery and take-out |
| 14. | Nick-N-Willy's | Full service and delivery and take-out and take 'n' bake |
| 15. | Noble Roman's Pizza | Full service and delivery and take-out |
| 16. | Papa Bello | Fast food style service/ limited service |
| 17. | Papa John's | Fast food style service/ delivery and take-out |
| 18. | Papa Murphy's | Take 'n' bake |
| 19. | Pizza Fusion | Full service and delivery and take-out |
| 20. | Pizza Hut | Full service and delivery and take-out |
| 21. | Red Brick Pizza | Full service |
| 22. | Sarpino's | Full service and delivery and take-out |
| 23. | Shakey's | Full service |
| 24. | Venuto's Old World
Pizza | Delivery and take-out |
| 25. | Zpizza | Fast food style service/ limited service and delivery and take-out |

The Market Leaders

Within the pizza industry four companies stand out due to their system size and sales revenue. They have succeeded through innovation and the ability to adapt to consumer trends.

The top four companies are Pizza Hut, Domino's, Papa John's and Little Caesars

1. Pizza Hut

Pizza Hut is owned by YUM! Brands and is the world's #1 pizza chain with more than 13,200 outlets in about 90 countries worldwide. Pizza Hut has more than 7,500 units in the US which accounts for 11.2% of all pizzerias in the US. They also capture 14.5% of all US pizza sales⁹. In 1995, Pizza Hut franchises began offering buffalo chicken wings in an effort to offer consumers a variety of tastes and costs. The WingStreet brand was launched in 2003 and has been expanding its presence in Pizza Hut restaurants across the US ever since. Wing Street is now the largest chicken wing delivery chain with more than 2,200 locations. In addition, Pizza Hut launched its most ambitious product in April; in an effort to boost sales it expanded its delivery menu to include pasta. The first of the leading pizza chains to offer pasta on its delivery menu, the new line is expected to generate \$1 billion in annual sales.

2. Domino's

Domino's Pizza, with over 9000 units around the world, is one of the leading pizza delivery companies in the US and operates in 50 other countries. Domino's Pizza brand is one of the most widely-recognized consumer brands in the world. Strong brand image results in a loyal customer base and also helps the company leverage its brand strength to introduce new products. Domino's recently revamped their pizza with a new recipe and denounced their old recipe through a frank advertising campaign. The chain decided to start overhauling its recipes more than 18 months ago after mounting criticism from focus groups and on social media sites. The new pizza, which has a new sauce and cheese combination and herb- and garlic-flavored crust, has proved to be a success as Domino's more than doubled their fourth-quarter profit last year. For the first quarter of 2010 sales surged 18.4% to \$381.1 million in the US. In the US, same-store sales rose 14.3% compared to a 1% gain in the first quarter of 2009. Same-store sales refer to the difference in revenue generated by existing stores over a period of time compared to an identical period in the past. International sales rose 4.2%, down from a 6.6% increase a year earlier.

3. Papa John's

Papa John's operates and franchises more than 3,000 delivery and carryout pizza restaurants worldwide. Papa John's was the first pizza business to offer online ordering and has since been the first business to surpass \$2 billion in online ordering pizza sales¹⁰. In an effort to expand, Papa John's has waived the franchise fee of \$25,000 for new franchisees in 2010 and have also a reduced royalty on sales for the first 12 months for on-time restaurant openings, including a 0% royalty rate for restaurants opened by June 2010.

4. Little Caesars

Little Caesars Pizza is known for its low prices and simple menus. Little Caesars, which operates carry-out restaurants, was the fastest-growing pizza restaurant chain in the country in 2009, growing by about 100 restaurants to 2,600 according to the food service industry consultant Technomic Inc¹¹. The Detroit-based company, which is the fourth-largest pizza chain in the US, grew in sales to \$1.13 billion in 2009 from \$1.06 billion in 2008.

New Technology & Business Development

One of the most influential developments in the pizza industry has been the growth of new technology and the increase in popularity of mobile internet devices. According to the *National Restaurant Association's 2010 Industry Forecast*¹² it is time for pizzerias to prepare for growth by reinvesting in their technological infrastructure. Using new technology as a marketing channel is increasingly more important for the success of pizza franchises. Increased trust in online purchasing and the introduction of new e-commerce platforms also offers the benefit of convenience to consumers.

Promotions and Marketing

Social media, such as Facebook and Twitter, now provide pizza franchises with a new platform from which to market to the consumer and broaden their customer base. Previous marketing strategies were focused on large demographics and so could not target specific groups. With social networking sites, search engines and a huge increase in the number of Americans with iPhones or other mobile internet devices, a franchise can now reach consumers that have a specific interest in the product and market to them directly. The consumer "signs up" for more information and promotions or they can download the pizza businesses' app* directly to their cell phone. This enables franchisees to market more effectively within their local area.

**An app, or application, is third party software developed specifically for online media devices.*

Domino's announced at the end of May 2010 that its official app for mobile devices has recorded 300,000 downloads during the past six months, producing millions in revenue for the company. Domino's chief executive Don Miejs says:

"Technology is becoming a bigger part of our business. The app is powerful in that users can do it in their own time and it is convenient for them. It delivers a benefit for them as opposed to using the phone or ordering in store, because they are more relaxed while ordering."¹³

Pizza Hut also used a new smart-phone application in order to boost sales. The Pizza Hut application, which was released in July 2009, was responsible for \$1 million in sales by the end of November 2009.

To capture budget minded consumers, pizza businesses are using tactics such as value meals and rebates. Eighty-five percent of pizza-chain sales are tied to promotions and discounts mostly acquired through social media sites according to Citigroup Global Markets. Previously, coupons and promotions were sent via large mailing lists and were not targeted at a specific audience. Franchisees found it difficult to track the effectiveness of mailing lists as they provided no information on local trends or marketing

information. Promotions on social media sites allow the pizza businesses to gather essential marketing information.

Ordering

An increasing number of online users in the US will order food online. It is predicted that the internet, interactive TV and text-messaging will eventually overtake telephone ordering of collection and home delivered foods as consumers grow more comfortable ordering and paying for products through multi-media devices.

Online and text ordering is now a quick and simple process. This combined with the recession-driven “eating in” trend means take-out and delivery sales are increasing, giving the pizza industry a huge boost.

Energy

Not only are green initiatives important for consumers but they can also benefit a pizza franchise. New technology has now made it possible to centrally control certain systems like lighting, room temperature and kitchen equipment through a single network. Operators get vital insights that can save thousands of dollars per year in energy costs. Machines can be monitored for optimal performance, equipment can be relocated for most advantageous workflow and output, and heat and air is monitored for optimal efficiency¹⁴.

The potential for increased energy savings is one of the reasons Papa John’s International Inc. began outfitting all of its U.S. company-owned stores with high-speed ovens. The oven bakes 30 percent faster than a normal conveyor oven, while reducing energy consumption by about 25 percent. Franchises have not been required to change to these new ovens although many have opted to do so as they shave up to 2 minutes off the cooking time.

Training

Many franchises now offer e-learning as part of the franchise package. Before the franchisee even attends the training facility they may be required to complete online training or course work. These training programs offer extra support and avenues for learning for both new and established franchisees.

Menu Adaption

Many pizza businesses have launched new product lines and adapted their menus in a bid to reclaim customers. Pizza businesses selling non-traditional items such as sandwiches, pasta and chicken, now offer the consumer a lower cost alternative to pizza. This allows pizza businesses to compete with low cost fast food chains. Pizza Hut is doing just that with its WingStreet concept. Within a couple of years, the franchise hopes to have WingStreet outlets in 85% of its domestic Pizza Hut stores.

Domino's have not only launched an "inspired" recipe for a new hand-tossed pizza, which was reformulated due to tough criticism from consumers, but they have also begun to offer oven-baked sandwiches. In selling toasted subs however, Domino's is opening itself up to competition from large chains such as Subway and Quiznos.

Franchise Information

Franchise fees:

The table below provides an overview of the estimated initial investment required to open a single unit of 25 pizza franchises. It also contains a detailed profile of each franchise which presents these costs in more detail. The profiles are extracted from the Franchise Disclosure Documents (FDD) of the 25 franchisors.

Table 2: Franchise Information Collected from the FDD's of 25 Pizza Franchises.

Name of franchise	Year Established	Initial franchise fee	Estimated Initial Investment – Low -	Estimated Initial Investment – High -
<u>Ameci Pizza & Pasta, Inc.</u>	1985	\$25,000	\$133,200	\$222,800
<u>Arizona Pizza Co. Inc.</u>	2002	\$35,000	\$400,000	\$865,000
<u>Blackjack Pizza</u>	1998	\$15,000	\$161,800	\$380,100
<u>Boston Pizza</u>	2001	\$50,000	\$1,699,000	\$2,780,500
<u>Bucks Pizza</u>	1994	\$20,000	\$165,450	\$345,400
<u>Captain Tony's Pizza</u>	1985	\$20,000	\$162,960	\$346,810
<u>Domino's</u>	1960	\$25,000	\$119,950	\$461,700
<u>Extreme Pizza</u>	1994	\$30,000	\$169,000	\$376,000
<u>Figaro's Pizza</u>	1986	\$52,500	\$101,000	\$398,450
<u>Godfather Pizza</u>	1973	\$25,000	\$448,000	\$629,500
<u>Hungry Howie's Pizza</u>	1981	\$15,000	\$121,100	\$433,000
<u>Little Ceasars</u>	1962	\$20,000	\$185,050	\$519,000
<u>Nick-N-Willy's</u>	2001	\$25,000	\$300,150	\$425,700
<u>Noble Romans</u>	1972	\$15,000	\$30,600	\$323,500

Pizza

NYPD	1996	\$25,000	\$422,696	\$544,300
Papa Bello	2006	\$25,000	\$209,111	\$379,811
Papa John's	1984	\$25,000	\$113,823	\$529,123
Papa Murphy's	1995	\$25,000	\$171,655	\$353,225
Shake 'n' Bake				
Pizza Fusion	2006	\$30,000	\$305,300	\$405,500
Pizza Hut	1967	Varies	\$453,400	\$2,953,200
Red Brick Pizza	1998	\$25,000	\$175,000	\$499,000
Sarpino's	2002	\$19,995	\$178,395	\$237,695
Shakeys		\$25,000	\$794,000	\$2,194,500
Venuto's Old	2006	\$27,500	\$169,300	\$264,000
World Pizza				
Zpizza	1986	\$25,000	\$186,500	\$257,500

Table 3: Ongoing Fees Related to 25 Pizza Franchises:

Name of Fee	Average – Low -
Royalty	5%
Leasehold Improvement	\$293,732 - \$295,057
Local/ Regional Advertisement	2.49
National Advertisement	2.3
Renewal	\$6210
Average Estimated Initial Investment	\$29,505 - \$685,012

Location

As with any food franchise, it is paramount to select the best location for the business. When selecting a pizza franchise location, a franchisee will need to take into consideration the local demographics, traffic patterns, parking, character of neighborhood, competition from other businesses within the area and the size and appearance of the site.

Site selection

A franchisor may or may not aid in the selection of a franchise site. It will state in the FDD of each franchise how much assistance is given in the selection of a site. The prospective franchisee will need to submit a location proposal for the approval of the franchisor. If the site location is not approved, the franchisee will need to select another site.

Territory

An exclusive territory gives the right of the territory to the franchisee preventing the franchisor from appointing any other franchisees in the territory or from conducting businesses themselves in the territory. The boundaries and terms for each franchise will vary. For example *Hungry Howie's Pizza* will not operate restaurants or grant franchises within a one mile radius of the franchise. However, this agreement allows that all *Hungry Howie's* franchisees can deliver into each other's exclusive territory. *Noble Roman's Pizza*, on the other hand does not offer the franchisee an exclusive territory. The franchisee may face competition from other franchisees or from other outlets or channels of distribution that the franchisor may own.

If a franchisee is unable to find a suitable location, after a specified amount of time, this may constitute a default under the franchise agreement.

2. Length of the Franchise Agreement

The term of the franchise agreement for a pizza franchise can range from 5 years to 20 years depending on the franchise package. The majority of pizza franchise agreements are for a term of 10 years.

3. Staffing and Training

Each pizza franchise offers specific training courses and material. All training programs are split into two components: on-the-job training and classroom training. The franchisee receives an operations manual, store operations manual, kitchen training manual equipment specifications manual and counter service training manual. The franchisor expects the franchisee to pay for the expenses of their staff and themselves while on the training course.

The franchise training will also cover how to hire and train staff for a successful franchise. The franchisor will also supply the training equipment needed for this training and will be contactable if any help is needed.

4. Regulations

The food service and restaurant industry is one of the most regulated industries in the U.S. A variety of regulations, laws and ordinances govern the operation of a restaurant business. The following is a list of regulations that will affect the everyday running of a pizza franchise.

- Food Safety
- Sanitation
- Nutritional Labeling
- Minimum Wage, Tips, and Overtime
- American with Disabilities Act
- Child and Teen Labor
- Immigration
- Taxes

The U.S. Food and Drug Administration, the U.S. Department of Agriculture and state and local health departments administer and enforce regulations that govern food preparation and service and restaurant sanitary conditions.

A franchisor may or may not provide assistance in determining the federal, state and local laws that affect the franchise. There are often variations in licensure requirements and regulations from state to state. Investigating, understanding and the application of licensure regulations is the franchisee's sole responsibility.

Outlook

The outlook for the pizza industry is positive. The increased usage of mobile internet devices and the popularity of social networking sites have made it possible for pizza businesses to keep up to date with the needs and wants of their customers. It has also allowed them to launch new and more specialized marketing and promotional campaigns directed at local audiences. In doing this the pizza industry has increased their sales for the first quarter of 2010 and the industry is set to continue to grow.

Pizza franchises have shown that they have the foresight and ability to recognize changing consumer trends and adapt their businesses and marketing strategies accordingly.

Sources

¹ About Domino's Pizza, *Fun Facts*; www.Domino's.com.

² "Pizza Power", PMQ magazine's (Pizza Marketing Quarterly) *Annual Industry Analysis*.

³ ibid

⁴ ibid

⁵ ibid

⁶ ibid

⁷ National Restaurant Association, *Research and Insights*, www.restaurant.org

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⁹ "Pizza Power", PMQ magazine's (Pizza Marketing Quarterly) *Annual Industry Analysis*.

¹⁰ Papa John's Press Release, *May 3rd 2010*,

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